

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
SEPTEMBER 21, 2016
AGENDA

1. Call Meeting to Order
2. Approval of Minutes from the TLDA meeting of August 11, 2016
3. Consider for approval the following DWSRF loans:

	SRF Base Loan	Principal Forgiveness	Total SRF Funding	Interest Rate
First UD of Hawkins County DG5 16-181	\$ 750,000	\$ 250,000	\$ 1,000,000	0.53%
First UD of Hawkins County DWF 16-184	\$ 1,400,000	\$ -	\$ 1,400,000	0.53%
South Elizabethton UD DG5 2016-177	\$ 510,000	\$ 170,000	\$ 680,000	0.19%

4. Public hearing and consideration of a request for approval of the proposed TLDA SRF Policy and Guidance for Borrowers
5. Adjourn

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
August 11, 2016

The Tennessee Local Development Authority (the “Authority” or “TLDA”) met on Thursday, August 11, 2016, at 10:00 a.m. in the State Capitol, room G-11, Nashville, Tennessee. The Honorable Justin Wilson, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable David Lillard, State Treasurer
Ms. Angela Scott, Proxy for Commissioner Larry Martin, Department of Finance and Administration
Dr. Kenneth Moore, House Appointee

The following member participated telephonically as authorized by Tennessee Code Annotated Section 8-44-108 and as posted in the meeting notice:

Mr. Pat Wolfe, Senate Appointee

The following members were absent:

The Honorable Bill Haslam, Governor
The Honorable Tre Hargett, Secretary of State

Recognizing a physical quorum present, Mr. Wilson called the meeting to order and performed a roll-call:

Mr. Wolfe—Present
Ms. Scott—Present
Mr. Wilson—Present
Mr. Lillard—Present
Dr. Moore—Present

Mr. Wilson asked for a motion to approve the minutes of the July 14, 2016 TLDA meeting. Dr. Moore made a motion to approve the minutes, and Mr. Lillard seconded the motion. Mr. Wilson directed Ms. Alicia Scott, Program Accountant in the Office of State and Local Finance, to perform a roll-call vote:

Mr. Wilson—Yes
Dr. Moore—Yes
Ms. Angela Scott—Yes
Mr. Lillard—Yes
Mr. Wolfe—Yes

The minutes were unanimously approved.

Mr. Wilson stated that the next two items of business were from the DeKalb Utility District (the “District”). The first request was for approval of a request from the District to issue Waterworks Revenue Refunding and Improvement Bonds (the “Refunding Bonds”) in an amount not to exceed \$4,200,000 on parity with its State Revolving Fund (SRF) loans. The second request was for approval a request from the District to issue USDA Waterworks Revenue Bonds (the “USDA Bonds”) in an amount not to exceed \$5,000,000 subordinate to it SRF loans. Mr. Wilson recognized Mr. Jeff Oldham with Bass Berry and Sims as counsel for the District. Mr. Oldham stated that the refunding portion of the first request would extinguish existing bond debt that currently is senior to

SRF debt and that debt service savings would result from the refunding. Mr. Wilson stated that upon approval of the request, the TLDA would move from a subordinate position to a position of parity with respect to the debt that would be refunded, thus improving the TLDA lien position. Mr. Wilson stated that staff had reviewed each request and that both met the requirements set forth in both existing policy and the proposed policy which was discussed at the July 14, 2016, TLDA meeting. Mr. Lillard made a motion to approve the District's request to issue the Refunding Bonds in parity with its SRF loans.

Mr. Wilson asked Mr. Oldham to discuss the request for the USDA Bonds. Mr. Oldham stated that the purpose of the USDA Bond issuance was to complete the water treatment plant, which is the same project that is being partially funded by SRF program loans. Mr. Wilson stated that the USDA bonds would be issued subordinate to existing SRF debt. Dr. Moore made a motion to approve the District's request to issue USDA Bonds, and Mr. Lillard seconded the motion. Ms. Alicia Scott called the roll:

Mr. Wolfe—Yes
Mr. Wilson—Yes
Dr. Moore—Yes
Ms. Angela Scott—Yes
Mr. Lillard—Yes

The motion was unanimously approved.

Mr. Wilson recognized Mr. Sherwin Smith, Director of the Tennessee Department of Environment and Conservation (TDEC) SRF program to present the request for approval of a Clean Water SRF loan. Mr. Smith first presented the unobligated fund balance. He stated that the balance was \$122,487,688 as of June 9, 2016. Upon approval of the loan request to be presented, the funds available for loan obligations would decrease to \$122,362,688. He then described the loan request:

- Gordonsville (CW4 2017-377)—Requesting \$125,000 (\$116,250 (93%) loan; \$8,750 (7%) principal forgiveness) for collection system expansion; recommended interest rate of 1.33% based on the Ability to Pay Index (ATPI).

Mr. Wilson asked Mr. Smith to provide information on the public meeting. Mr. Smith stated that a public meeting was held on July 13, 2015, and there were no adverse comments. He stated that the citizens appeared to be supportive of this project. Mr. Wilson made a motion to approve the request, and Dr. Moore seconded the motion. Ms. Alicia Scott called the roll:

Mr. Wolfe—Yes
Mr. Wilson—Yes
Dr. Moore—Yes
Ms. Angela Scott—Yes
Mr. Lillard—Yes

The motion was unanimously approved.

Mr. Wilson asked Mr. Smith to present the requests for Drinking Water SRF loans. Mr. Smith first presented the unobligated fund balance. He stated the balance was \$37,448,374 as of June 9, 2016. The balance increased a total of \$786,179 due to a \$374,360 transfer of FY 2013 set-aside funds to project funds and loan decreases of \$411,819. Upon approval of the loan requests to be presented, the funds available for loan obligations would decrease to \$36,484,703. He then described the loan requests:

- Oakland (DG5 2016-179)—Requesting \$1,249,850 (\$937,387 (75%) loan; \$312,463 (25%) principal forgiveness) for green water meter replacement; recommended interest rate of 1.12% based on the ATPI.

- Paris (DG5 DWF 2016-178)—Requesting \$500,000 for design for water treatment plant improvements (replace aging treatment process-Phase II); recommended interest rate of 0.85% based on the ATPI.

Mr. Smith stated that Paris has one existing SRF loan to fund phase I of the project for water treatment plant improvements. The loan presented for approval would fund planning and design work in Phase II. The city plans to request additional SRF funding for the construction phase.

Dr. Moore made a motion to approve the Drinking Water SRF loan requests, and Mr. Lillard seconded the motion. Ms. Alicia Scott called the roll:

Mr. Wolfe—Yes
Mr. Wilson—Yes
Dr. Moore—Yes
Ms. Angela Scott—Yes
Mr. Lillard—Yes

The motion was unanimously approved.

Mr. Wilson stated that the next item of business was consideration of a request from the city of Portland (the City) to issue Water and Sewer Revenue Refunding and Improvement bonds in an amount not to exceed \$20,000,000 on parity with its outstanding SRF loan. (This item had been inadvertently skipped.) Mr. Wilson stated that the City meets the requirements set forth in both current and proposed policy and that upon approval of this request, the TLDA would move from a subordinate position to a position of parity with respect to the debt that would be refunded, thus improving the TLDA's lien position. Mr. Wilson made a motion to approve the request, and Mr. Lillard seconded the motion. Ms. Alicia Scott called the roll:

Mr. Wolfe—Yes
Mr. Wilson—Yes
Dr. Moore—Yes
Ms. Angela Scott—Yes
Mr. Lillard—Yes

The motion was unanimously approved.

Mr. Lillard made motion to adjourn, and Mr. Wilson seconded the motion. The meeting was adjourned.

Approved on this ____ day of _____, 2016.

Respectfully submitted,

Sandra Thompson
Assistant Secretary

DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF WATER RESOURCES

Drinking Water State Revolving Fund (DWSRF) Loan Program
Funds Available for Loan Obligation
September 21, 2016

Unobligated Balance as of August 11, 2016 **\$ 36,484,703**

<u>Increases:</u>	<u>Loan Number</u>	<u>Loan Amount</u>
Principal Repayments FY 2016 (unaudited) net	*	\$ 6,184,871
Interest Repayments FY 2016 (unaudited) net	*	\$ 1,630,770
Treasury Interest FY 2016 (unaudited)	*	\$ 184,906
FY 2016 EPA Capitalization Grant (net of set-asides)		\$ 7,314,560
State Matching of Federal Grant		<u>\$ 1,662,400</u>
		<u>\$ 16,977,507</u>

Unobligated Balance as of September 21, 2016 **\$ 53,462,210**

<u>Applicants:</u>	<u>Loan Number</u>	<u>Loan Amount</u>
First U. D. of Hawkins County (subsidized @ \$250,000)	DG5 2016-181	\$ 1,000,000
First U. D. of Hawkins County	DWF 2016-184	\$ 1,400,000
South Elizabethton Utility District (subsidized \$170,000)	DG5 2016-177	<u>\$ 680,000</u>
		<u>\$ 3,080,000</u>

Remaining Funds Available for Loan Obligations **\$ 50,382,210**

* These amounts are subject to change, as the amounts are pending final closing of the books.

FACT SHEET

SEPTEMBER 21, 2016

Borrower: First Utility District of Hawkins County

Population: 18,712

County: Hawkins County

Consulting Engineer: CTI Engineers, Inc.

Project Number: DG5 2016-181

Priority List Ranking/Points: 26(FY 2015)/25

Recommended Term: 20 years

Recommended Rate: $(1.56 \times 50\%) - (0.25\%) = 0.53\%$

Project Description: Green- Water Meter Replacements.

Total Project Cost: \$ 2,400,000

Sources of Funding:

SRF Loan Principal (75%)	\$ 750,000
Principal Forgiveness (25%)	\$ 250,000
Other Funds (DWF 2016-184)	\$ 1, 400,000

Gross Revenues: \$ 3,937,906

Debt Service:

Prior Loans: (including SRF)	\$ 1,072,888	27.25%
Proposed Loan:	<u>\$ 113,322</u>	<u>2.87%</u>
Total:	\$ 1,186,210	30.12%

Residential User Charge: (5,000 gal/month)

Current Rate:	\$ 43.95
Proposed Rate:	\$ 45.27 ((Effective Date: January 25, 2017)

Public Meeting: July 11, 2016

**REPRESENTATION OF THE LOCAL GOVERNMENT
AS TO OUTSTANDING LOANS
First Utility District of Hawkins County
DG5 2016-181**

The Local Government hereby represents that:

- (1) The total amount of revenues of the system received by the Local Government in the prior fiscal year of the State is \$3,937,906
- (2) (a) The prior loans which have been funded for which the Local Government has pledged its revenues are as follows:

Loan Type	Loan #	Original \$/Amt.	Principal Forgiveness	Max: Annual Debt Service
Waterworks Rev. Ref. Bonds	Series 2016	\$9,820,000	-	\$755,688
Waterworks Rev. Ref. & Imp. Bonds	Series 2008A	\$9,100,000	-	\$317,200

- (b) The maximum aggregate annual debt service is \$1,072,888.
- (3) (a) The loans which have been applied for or have been approved with funding not yet provided, for which the Local Government has pledged its revenues are as follows:

Loan Type	Anticipated Interest Rate	Original \$/Amt.	Principal Forgiveness	Anticipated Max. Annual Debt Service
SRF/Water	0.53%	\$1,000,000	\$250,000	\$39,531
SRF/Water	0.53%	\$1,400,000	-	\$73,791

- (b) The anticipated maximum aggregate annual debt service is \$113,322.

- (4) The amount of Local Government indebtedness (Subparagraphs (2)(b) and (3)(b) having a lien on the revenues referred above is \$1,186,210
- (5) The amount set forth in Subparagraph (1) less the amount set forth in Subparagraph (4) is \$2,751,696

Duly signed by an authorized representative of the Local Government on this 8th day of August, 2016.

This is the Comptroller's certificate as required by TCA 4-31-108. The approval of the loan(s) is contingent upon approval by the Tennessee Local Development Agency.

LOCAL GOVERNMENT

BY: 

Mr. Terry Fletcher, President of the First UD of Hawkins County

FACT SHEET

SEPTEMBER 21, 2016

Borrower: First Utility District of Hawkins County

Population: 18,712

County: Hawkins County

Consulting Engineer: CTI Engineers, Inc.

Project Number: DWF 2016-184

Priority List Ranking/Points: 26(FY 2015)/25

Recommended Term: 20 years

Recommended Rate: $(1.56 \times 50\%) - (0.25\%) = 0.53\%$

Project Description: Green- Water Meter Replacements.

Total Project Cost: \$ 2,400,000

Sources of Funding:

SRF Loan Principal	\$ 1,400,000
Other Funds (DG5 2016-181)	\$ 1, 000,000

Gross Revenues: \$ 3,937,906

Debt Service:

Prior Loans: (including SRF)	\$ 1,072,888	27.25%
Proposed Loan:	\$ 113,322	2.87%
Total:	\$ 1,186,210	30.12%

Residential User Charge: (5,000 gal/month)

Current Rate:	\$ 43.95
Proposed Rate:	\$ 45.27 ((Effective Date: January 25, 2017)

Public Meeting: July 11, 2016

**REPRESENTATION OF THE LOCAL GOVERNMENT
AS TO OUTSTANDING LOANS
First Utility District of Hawkins County
DWF 2016-184**

The Local Government hereby represents that:

- (1) The total amount of revenues of the system received by the Local Government in the prior fiscal year of the State is \$3,937,906
- (2) (a) The prior loans which have been funded for which the Local Government has pledged its revenues are as follows:

Loan Type	Loan #	Original \$/Amt.	Principal Forgiveness	Max: Annual Debt Service
Waterworks Rev. Ref. Bonds	Series 2016	\$9,820,000	-	\$755,688
Waterworks Rev. Ref. & Imp. Bonds	Series 2008A	\$9,100,000	-	\$317,200

- (b) The maximum aggregate annual debt service is \$1,072,888.
- (3) (a) The loans which have been applied for or have been approved with funding not yet provided, for which the Local Government has pledged its revenues are as follows:

Loan Type	Anticipated Interest Rate	Original \$/Amt.	Principal Forgiveness	Anticipated Max. Annual Debt Service
SRF/Water	0.53%	\$1,000,000	\$250,000	\$39,531
SRF/Water	0.53%	\$1,400,000	-	\$73,791

- (b) The anticipated maximum aggregate annual debt service is \$113,322.

- (4) The amount of Local Government indebtedness (Subparagraphs (2)(b) and (3)(b) having a lien on the revenues referred above is \$1,186,210
- (5) The amount set forth in Subparagraph (1) less the amount set forth in Subparagraph (4) is \$2,751,696

Duly signed by an authorized representative of the Local Government on this 11/24 day of Sept, 2016.

This is the Comptroller's certificate as required by TCA 4-31-108. The approval of the loan(s) is contingent upon approval by the Tennessee Local Development Agency.

LOCAL GOVERNMENT

BY: 

Mr. Terry Fletcher, President of First UD of Hawkins County

FACT SHEET

SEPTEMBER 21, 2016

Borrower: South Elizabethton Utility District

Population: 5,090

County: Carter County

Consulting Engineer: W&W Engineering, LLc

Project Number: DG5 2016-177

Priority List Ranking/Points: 3(FY 2015)/65

Recommended Term: 20 years

Recommended Rate: $(1.48 \times 30\%) - (0.25\%) = 0.19\%$

Project Description: Waterline Replacements and Pump station Improvements Project

Total Project Cost: \$ 680,000

Sources of Funding:

SRF Loan Principal (75%)	\$ 510,000
Principal Forgiveness (25%)	\$ 170,000
Other Funds	\$ -0-

Gross Revenues: \$ 1,445,590

Debt Service:

Prior Loans: (including SRF)	\$ 69,750	4.82%
Proposed Loan:	\$ 25,990	1.80%
Total:	\$ 95,740	6.62%

Residential User Charge: (5,000 gal/month)

Current Rate: \$ 62.95

Public Meeting: April 14, 2016

**REPRESENTATION OF THE LOCAL GOVERNMENT
AS TO OUTSTANDING LOANS
SOUTH ELIZABETHTON UD
DG5 2016-177**

The Local Government hereby represents that:

(1) The total amount of revenues of the system received by the Local Government in the prior fiscal year of the State is \$1,445,590.

(2) (a) The prior loans which have been funded for which the Local Government has pledged its revenues are as follows:

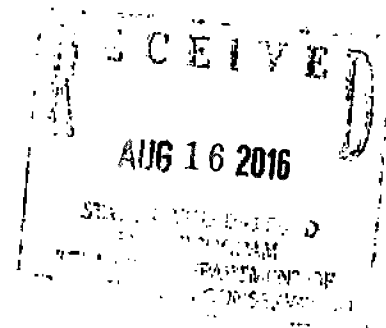
Loan Type	Loan #	Original \$/Amt.	Max: Annual Debt Service
USDA Rural Dev. Revenue Bond	1995	\$350,000	\$21,300
Waterworks Revenue Bond	2002	\$825,000	\$48,450

(b) The maximum aggregate annual debt service is \$69,750.

(3) (a) The loans which have been applied for or have been approved with funding not yet provided, for which the Local Government has pledged its revenues are as follows:

Loan Type	Anticipated Interest Rate	Original \$/Amt.	Principal Forgiveness	Anticipated Max. Annual Debt Service
SRF/Water	0.19%	\$680,000	\$170,000	\$25,990

(b) The anticipated maximum aggregate annual debt service is \$25,990.



- (4) The amount of Local Government indebtedness (Subparagraphs (2)(b) and (3)(b) having a lien on the revenues referred above is \$95,740.
- (5) The amount set forth in Subparagraph (1) less the amount set forth in Subparagraph (4) is \$1,349,850.

Duly signed by an authorized representative of the Local Government on this 15th day of August, 2016.

This is the Comptroller's certificate as required by TCA 4-31-108. The approval of the loan(s) is contingent upon approval by the Tennessee Local Development Agency.

LOCAL GOVERNMENT

BY:

Kevin Lenden
Kevin Lenden, UD Manager

**Tennessee Local Development Authority
State Revolving Fund
Policy & Guidance for Borrowers**

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Tennessee Local Development Authority State Revolving Fund Policy & Guidance for Borrowers

Introduction

The purpose of the Clean Water State Revolving Fund and Drinking Water State Revolving Fund programs (together, the “SRF program”) is to provide financial assistance to address federal and state health, safety, and environmental requirements for clean water and safe drinking water. Through the SRF program, local governments and water systems are eligible to apply for below market rate loans to finance the infrastructure to meet these requirements. The purpose of this Tennessee Local Development Authority State Revolving Fund Policy & Guidance for Borrowers ("Policy and Guidance") is to provide guidance to SRF program borrowers.

Over the years, the Tennessee Local Development Authority (the “TLDA”) has established policies and other guidance to assist program borrowers. The TLDA has conducted a review of these documents with regards to their clarity and efficacy for SRF program borrowers, alignment with SRF program goals, and compliance with SRF program requirements. This resulting Policy and Guidance supersedes any policy or guidance previously approved by the TLDA, including, but not limited to:

- Incremental Funding Policy approved on August 26, 2008.
- Policy on Approval of Refundings Proposed by Utility Districts/Water and Wastewater Authorities approved on October 15, 2010.
- Policy on Subordination approved on January 13, 2012.
- Intent on Parity Status document approved on June 8, 2012.
- Loan Modification Policy approved on October 24, 2013.

Please note that the Tennessee General Assembly passed legislation in 2015 allowing privately owned for-profit community public water systems (“Private Systems”) access to the Drinking Water SRF loan program. At the time of the approval of this Policy and Guidance, no loans have been made to Private Systems nor have any applications been received. As such, the policies and guidance included in this document are not at this time applicable to Private Systems. Please refer to the section titled Privately Owned For-Profit Community Public Water Systems for more information on the enacted legislation.

Definitions

For purposes of this Policy and Guidance, terms defined in Tenn. Code Ann. Title 68, Chapter 221, Parts 10 and 12, shall have the same meaning as defined in those parts unless the context otherwise requires. Any subsequent amendment to definitions in those parts or statutes cited in the definitions below is hereby incorporated by this Policy and Guidance.

"Borrower" means any municipality, system, or utility district for which a SRF program loan has received final approval by the TLDA in accordance with Tenn. Code Ann. § 68-221-1005(c) or Tenn. Code Ann. § 68-221-1205(g) unless such loan has been paid in full.

"Municipality" means a county, incorporated town or city, or metropolitan government.

"State-shared taxes" has the same meaning as defined in Tenn. Code Ann. § 4-31-102.

"System" means:

- (1) A water/wastewater authority or an energy authority; or
- (2) Any instrumentality of government created by one or both of the entities described in this definition; a municipality; or by an act of the General Assembly, but does not mean a utility district.

"Utility district" or "UD" means a utility district formed pursuant to the Utility District Law, compiled in Title 7, Chapter 82.

"Privately owned for-profit community public water system" or "Private System" means a system eligible to apply for Drinking Water SRF program loans pursuant to Code of Federal Regulations ("CFR") Part 35 and Tenn. Code Ann. § 68-221-1203(6).

"Tennessee Local Development Authority" or "TLDA" means the entity created by Tenn. Code Ann. Title 4, Chapter 31.

Tennessee Department of Environment and Conservation" or "TDEC" means the department created by Tenn. Code Ann. § 4-3-501.

Issuance of Additional Debt

Purpose

The SRF program provides Borrowers with low cost loans in order to fund water and wastewater projects; however, the program may not be able to meet all of the financing needs of all Borrowers or potential borrowers. Rapidly growing local governments, systems, and UD's may also need to issue additional debt in order to address their needs. By blending a below market interest rate SRF program loan(s) with the higher rate debt sold in the public market, these Borrowers may be able to incur lower overall costs and as a result, provide service to their customers at lower average user fees than would be available if such Borrowers relied solely upon directly issued public debt. While recognizing that there may be a need for additional borrowing outside of the SRF program, the TLDA has a responsibility to ensure the integrity of the program, which relies on the repayment of monies borrowed to fund future loans. As such, the TLDA must carefully consider any request from a Borrower which might impair the security for a Borrower's SRF program loan(s), including requests to modify lien position with respect to new debt.

This section provides guidance to Borrowers that wish to issue additional debt, clarifies the TLDA's position with respect to requests by Borrowers to modify the TLDA's lien position on SRF loans, and outlines factors to be analyzed by the TLDA when considering requests to modify such lien position.

Utility Districts and Systems

Requests from UD's and Systems to Issue Additional Revenue Debt

Since UD's and Systems do not have taxing authority, they cannot issue general obligation debt. Therefore, any additional debt issued by a UD or System that is a Borrower, would be payable from the same revenues that are pledged to repay the Borrower's SRF program loan ("SRF Loan"), and must first meet all representations and covenants in the Borrower's SRF loan agreement. All requests to issue such additional revenue debt must be approved by the TLDA prior to the issuance of such debt. In order to allow adequate time for such consideration, all requests should be submitted to the TLDA in writing at least 45 days prior to the anticipated issuance date.

Any request for which the Borrower seeks either parity or a senior lien position for the new revenue debt must specifically request such position in writing, and the TLDA must approve any modification of the SRF program's lien position prior to the issuance of any new debt. (See section titled Lien Position.)

If the additional revenue debt is being issued solely to refund previously outstanding debt, approval may be granted by the Vice-Chairman of the TLDA, as outlined below in the section titled Approval for the Issuance of Refunding Debt.

Borrowers should always consult their bond or disclosure counsel in order to obtain advice on the appropriate disclosure to be made in offering documents for any new debt concerning the lien held by the SRF program.

Approval for the Issuance of Refunding Debt

Due to short time frames required to take advantage of market conditions to achieve savings through the issuance of refunding debt, the Vice-Chairman of the TLDA is authorized to approve refunding debt proposed to be issued by a Borrower when:

- The refunding does not extend the life of the debt;
- The refunding debt is structured to generate debt service savings of at least 3 percent net present value savings of the refunded debt;
- Documentation is provided to the Vice-Chairman, in the form of a projected savings report certified by a financial advisor or underwriter, demonstrating such savings can be achieved;
- The Borrower is not requesting parity or senior lien position for the refunding debt;
- Staff has analyzed the transaction and has concluded that any prerequisites for TLDA approval of the issuance of additional debt have been met; and,
- The Borrower agrees to provide a final savings report to the Vice-Chairman, which shows the actual savings achieved by the refunding.

All requests should be submitted to the TLDA in writing at the same time that the plan of finance for the issuance of refunding debt is submitted to the Director of the Office of State and Local Finance pursuant to Tenn. Code Ann. § 7-82-501. The Vice-Chairman will report any such approvals at the next meeting of the TLDA. At that time, (or as soon as it is available), the Vice-Chairman will provide the final savings report to all members of the TLDA for review.

The Vice-Chairman will report any such approvals at the next meeting of the TLDA. At that time (or as soon as it is available), the Vice-Chairman will provide the final savings report to all members of the TLDA for review.

Security and Representations and Covenants Required for Consideration of a UD or System's Request to Issue Additional Revenue Debt

SRF loans to Utility Districts and Systems are secured by user fees and other revenues collected by the Borrowers. Utility Districts and Systems do not have State-shared or ad valorem taxes to pledge as security for SRF loans. In order to secure these loans, alternative procedures and covenants relating to these entities have been established. By statute, a UD or System Borrower pledges and assigns any funds due to it from the State. However, in most cases, there are no state funds due to a UD or System to intercept in the event of a delinquency.

The requirements summarized below are included in the representations and covenants made in the SRF loan agreements for Utility Districts and Systems:

- To do, file or cause to be done or filed any action or statement required to perfect or continue the lien(s) or pledge(s) granted or created under the loan agreement;

- To establish and collect, and to increase user fees and charges sufficient to meet a 1.20x debt service coverage to net revenues. Net revenues are gross earnings, fees and charges, less current expenses. Current expenses are those incurred in the operation of the system, determined in accordance with generally accepted accounting principles ("GAAP"), including the reasonable and necessary costs of operating, maintaining, repairing and insuring the system, salaries, wages, cost of material and supplies, and insurance premiums, but specifically excluding depreciation and debt service payments; and
- No additional debt payable from the revenues of the system will be issued or entered into unless:
 - (1) Prior approval is received from the TLDA;
 - (2) The annual audit required by the terms of the loan agreement for the most recent fiscal year has been delivered within six months after the end of such fiscal year;
 - (3) The covenant requiring 1.20x debt service coverage to net revenues was met for the most recent fiscal year;
 - (4) The net revenues of the system for the next three fiscal years ending after the issuance of the additional debt shall be sufficient to comply with the covenant to establish and collect user fees and charges sufficient to meet a 1.20x debt service coverage to net revenues; and
 - (5) The UD or System has adopted a revised schedule of rates and fees and taken action to put such revisions in effect at or prior to the issuance of the additional debt.

As additional security for a SRF Loan, prior to the first disbursement of funds under a SRF loan agreement, a Utility District or System must deposit with the TLDA an amount of cash equal to the maximum annual debt service on such SRF Loan (or a portion of such amount, to be paid in up to four equal installments in accordance with the section titled Incremental Funding of Security Deposit). This security deposit must be funded from cash available to a UD or System and no portion of a security deposit may be funded with proceeds of a SRF Loan.

Municipalities

Requests from Municipalities to Issue General Obligation Debt

Municipal Borrowers do not need to seek approval from or provide notification to the TLDA to issue general obligation debt unless such general obligation debt is also secured by a pledge of revenues derived from the water/wastewater system that is to be on parity with or senior to the SRF loan(s). In such case, see following section. ~~if the new general obligation debt will be considered to have a subordinate lien position to the SRF loan(s). However, if a Borrower intends to seek parity or senior lien position for its new general obligation debt, the Borrower must request in writing the approval of the TLDA. Such request should be submitted at least 45 days in advance (or as soon as possible) of proposed issuance of additional debt. The TLDA must approve any modification of the SRF program's lien position prior to the issuance of any general obligation debt (new money~~

or refunding). Borrowers should always consult bond or disclosure counsel in order to obtain advice on the appropriate disclosure to be made in offering documents for general obligation bonds or notes concerning the lien held by the SRF program.

Requests from Municipalities to Issue Revenue Debt

A Municipal Borrower do not need to seek approval from or provide notification to the TLDA that intends to issue revenue debt, which will be secured by a source of revenue other than the revenues of its water/wastewater system, should notify the TLDA in writing prior to the issuance of such debt. The written communication should be made at least 45 days in advance (or as soon as possible), but no approval is required from the TLDA. If the revenue debt will be secured by the revenues of the water/wastewater system, but the Borrower is not asking for parity or senior lien position, the Borrower should notify the TLDA in writing prior to the issuance of such debt and should include a statement that the Borrower understands that such debt will be subordinate to the SRF loan. The written communication should be made at least 45 days in advance (or as soon as possible), but no approval is required from the TLDA.

If a Borrower seeks parity or senior lien position for the revenue debt (new money or refunding), the Borrower must request in writing the approval of the TLDA. Such request should be submitted at least 45 days in advance of proposed issuance of additional debt or as soon as possible. The TLDA must approve any modification of the SRF program's lien position prior to the issuance of any revenue debt (new money or refunding). (See section titled Lien Position.)

Borrowers should always consult bond or disclosure counsel in order to obtain advice on the appropriate disclosure to be made in offering documents for any revenue debt concerning the lien held by the SRF program.

Encumbrance of State-Shared Taxes

If the additional debt involves a pledge of State-shared taxes, the Borrower must request in writing approval from the TLDA to encumber the Borrower's State-shared taxes, and the TLDA must approve any encumbrance of the Borrower's State-shared taxes prior to the issuance of any such new debt. Such request should be submitted at least 45 days in advance of the proposed issuance date of such debt or as soon as possible.

Lien Position

Requests from UD's, Systems, or Municipalities to Modify Lien Position

Generally, lien position, or lien priority, is determined by the date of the debt. The date of any SRF Loan shall be the date that the TLDA approves such loan request (as evidenced on the SRF loan agreement).

Following the general rule of lien priority, a new SRF loan will be issued subordinate to existing debt. Likewise, any debt issued after the approval of a SRF loan would be subordinate to such SRF loan. However, a Borrower may request a modification of such standard lien position. For example, a Borrower may have outstanding debt in the capital market and wish to obtain a SRF loan(s). The TLDA would consider a request to issue a new SRF loan(s) on parity with such existing debt. In another instance, a Borrower may have already entered into a SRF loan agreement(s) and wish to issue additional debt in the capital market. If a Borrower requests a

modification of the TLDA's lien position to new debt, the TLDA will only consider a modification upon demonstration from a Borrower of good cause, sufficient resources to repay the SRF Loan(s), and ability to satisfy any other such requirements as set forth by the TLDA at the time of the request. Therefore, in the absence of an approval by the TLDA to modify its lien position, any debt issued by a Borrower after the approval of a SRF Loan would be subordinate to the SRF Loan. However, if a Borrower requests a modification of the TLDA's lien position to new debt, the TLDA may consider a modification upon demonstration from a Borrower of good cause, sufficient resources to repay the SRF Loan(s), and ability to satisfy any other such requirements as set forth by the TLDA at the time of the request.

Because a request for subordination of SRF debt to a Borrower's debt may pose more risk to the SRF loan program than a request for parity, such a request warrants very careful consideration by the TLDA. The TLDA may approve a request for subordination under limited circumstances if a Borrower demonstrates a reasonable need, meets all requirements set forth by the TLDA, and the TLDA deems such request to be in the best interest of the Borrower and the users of the UD, System, or Municipal system.

All requests to modify a SRF program lien position must be approved by the TLDA prior to the issuance of any such debt (new money or refunding). In order to allow adequate time for such consideration, all requests should be submitted in writing to the TLDA at least 45 days prior (or as soon as possible) to the anticipated issuance date of such new debt.

Factors to be Considered for a Request to Modify Lien Position

The TLDA shall analyze several factors, as appropriate, when considering requests to issue additional debt payable, which would modify the SRF program's lien position. These factors shall include but are not limited to:

- Compliance of the Borrower with its SRF loan agreement(s) and covenants and representations set forth in the loan agreement;
- Amount of authorized and outstanding SRF program debt of the Borrower;
- Borrower's history of timely repayments of SRF loans;
- Borrower's timely filing of financial statements with the Division of Local Government Audit, Tennessee Comptroller of the Treasury;
- Purpose and amount of proposed debt issuance;
- Borrower's credit rating (if applicable);
- Current and pro-forma (projected) debt service coverage;
- Amount of unobligated state-shared taxes (if applicable);
- The system's reliance on revenues generated from its largest user(s) as a percentage of total system revenues;

- The lien position of existing SRF debt remains the same or is improved; and
- Impact on the health, safety, and well-being of the people of the state of Tennessee.

Consent to Modify Lien Position

Any consent by the TLDA to modify its SRF program lien position applies only to revenues pledged to serve the SRF loan, ~~and/or ad valorem taxes (if applicable)~~. Consent to modify the SRF lien position does not affect any pledge of State-shared taxes or any rights to security deposits held by the TLDA (if applicable).

Consent of the TLDA to modify the SRF program's lien position is subject to the condition that the documentation authorizing the new debt: 1) clearly states that debtholders have no rights to any security deposits required by, and securing, the SRF loan agreement(s) and 2) does not provide debtholders acceleration rights that are superior to, or more generous than, those provided under the SRF loan agreement(s). Neither the TLDA nor the TDEC shall have any rights to any debt service reserve fund established in favor of the new debt.

The Borrower will be responsible for ensuring completeness and correctness of all documents. The TLDA makes no representation that the issuance of additional debt by the Borrower is in compliance with all applicable laws, or that such issuance is in the best interest of the Borrower. The TLDA is not a municipal financial advisor, and offers no financial advice to Borrowers concerning such requests.

Report on Debt Obligation

A Report on Debt Obligation (the "Report") must be prepared for all debt obligations issued or entered into by any public entity and filed with its governing body with a copy sent to the Office of State and Local Finance/Comptroller of the Treasury for the State of Tennessee. The purpose for the Report is to provide clear and concise information to members of the governing or legislative body that authorized and is responsible for the debt issued. More information on this Report is included as a resource for local governments on the Comptroller's Office of State and Local Finance website.

Disclosure

The Electronic Municipal Market Access (EMMA) website was created by the Municipal Rulemaking Securities Board (MSRB) to provide municipal market information, such as official statements, continuing disclosure documents, advanced refunding documents, and trade data for all municipal securities in the United States. All local government issuers are required to perform continuing disclosure undertakings related to Securities and Exchange Commission Rule 15c2-12 via EMMA.

A local government may need to disclose information concerning its SRF program loan(s) on the MSRB's EMMA website. The local government should consult with counsel to determine what

the appropriate disclosures should be. More information about EMMA can be found on the MSRB's website.

Forgiveness of Principal

Purpose

Beginning with a capitalization grant received as a part of the American Recovery and Reinvestment Act of 2009, the U.S. Environmental Protection Agency ("EPA") has required, as a condition of acceptance of the annual EPA Capitalization Grant that the SRF program set aside a portion of the funds received from such grant in order to subsidize the loans to eligible Borrowers. Pursuant to Tenn. Code Ann. § 68-221-1005(I)(1), "[t]he department and the authority may use any federal funds allocated to the state to make loans and to subsidize loans made through the program authorized by this part, through such mechanisms as forgiveness of principal and negative interest rates." The Intended Use Plan ("IUP") prepared by TDEC is a required part of TDEC's annual application for the EPA Capitalization Grants. This document outlines the percent of principal forgiveness that will be given for each loan made from that EPA Capitalization Grant. No principal shall be forgiven except as required by the IUP and specified in the SRF loan agreements. Furthermore, privately owned for-profit community public water systems eligible for SRF loans pursuant to 40 CFR Part 35 shall not be considered for loans with principal forgiveness pursuant to Tenn. Code Ann. § 68-221-1206(f)(11)(A).

Terms and Conditions

SRF loan agreements that provide for principal forgiveness shall specify the amount of principal to be forgiven. Funds disbursed to a Borrower that has been awarded principal forgiveness, shall be disbursed pro rata as principal forgiveness and loan. If a Borrower submits requests for reimbursement that total an amount less than the total SRF program funding that the Borrower was awarded, then pro rata shares of principal forgiveness and loan shall be deemed to have been disbursed. For example:

Project A

Total SRF Funding Awarded:	\$1,000,000
Total Principal Forgiveness Awarded:	\$ 150,000 (15%)
Total Loan Awarded:	\$ 850,000 (85%)
 Reimbursement Request #1:	 \$ 350,000
Principal Forgiveness:	\$ 52,500 (15%)
Loan Amount to be Repaid:	\$ 297,500 (85%)

Reimbursement Request #2:	\$ 300,000
Principal Forgiveness:	\$ 45,000 (15%)
Loan Amount to be Repaid:	\$ 255,000 (85%)
Reimbursement Request #3 (Final):	\$ 300,000
Principal Forgiveness:	\$ 45,000 (15%)
Loan Amount to be Repaid:	\$ 255,000 (85%)

Total Disbursements to Borrower:	\$ 950,000
Total Principal Forgiveness:	\$ 142,500 (15%)
Total Loan Amount to be Repaid:	\$ 807,500 (85%)

Incremental Funding of Security Deposit for Utility Districts and Systems

Purpose

Pursuant to Section 8 of the loan agreement for Utility Districts and Systems, a security deposit is required in an amount of funds equal to the maximum annual debt service.

Section 8 of the loan agreement states in part:

Prior to the first disbursement of funds under this Agreement, the Local Government will deposit with the Authority an amount of funds equal to the maximum annual debt service (the “security deposit”). The amount of the security deposit will be adjusted to reflect adjustments in the payment schedule.

The amount of the security deposit is calculated based on the total approved loan amount. It is important to note that the SRF program operates on a reimbursement basis, but will not reimburse a Borrower with loan proceeds to fund the security deposit. A Borrower must fund the required deposit from its own resources prior to any disbursement of loan proceeds. The TLDA recognizes that although a Borrower may have increased user rates and fees to generate necessary cash flow needed for a project, sufficient cash flow might not be available at the beginning of a project to fully fund the security deposit up front, since the construction period during which loan proceeds are disbursed could take one to three years. Consequently, the TLDA authorizes its Assistant Secretary, upon the concurrence of TDEC, to approve Borrower requests for incremental funding of security deposits.

Upon approval of incremental funding by the Assistant Secretary, a Borrower would be allowed to deposit with the TLDA its security deposit in up to four equal installments (see Exhibit A). The

Assistant Secretary shall use his/her discretion to recommend the number of installments that will be allowed, based upon the amount of the required security deposit. Upon the concurrence of TDEC with such recommendation, the Assistant Secretary will notify the Borrower of the required incremental amount to be deposited. Then a pro rata share of project reimbursement requests may be disbursed upon the deposit of the first increment. Project reimbursement requests in excess of the amount supported by the then current security deposit will not be honored until the next required increment of funding is received and deposited.

Terms and Conditions

Such allowance for incremental funding of a security deposit is subject to the following:

- The Borrower has submitted a request in writing to the TLDA and has received written approval from the Assistant Secretary;
- The Borrower has provided staff with financial statements that demonstrate the Borrower's ability to make the approved incremental installments from current or projected cash flows; and
- The construction completion date for the project as outlined in the Loan Conditions section of the SRF loan agreement must be at least two (2) years after the date that the loan was approved by the TLDA.

The Borrower may request disbursements in any amount and at any frequency within the conditions listed above.

A Borrower who has been granted approval for incremental funding of the security deposit:

- Has no right to additional reimbursements of project costs under the SRF loan agreement until the required increment of the security deposit has been received and deposited by TLDA staff; and
- Is eligible to earn and receive interest only on the amount of the security deposit held by the TLDA.

Exhibit A

This example illustrates the concept of incremental funding. The funding for the security deposit is divided into four equal installments.

Loan Amount \$ 20,000,000
Term 20 years
Interest Rate 2.50%
Annual Debt Service \$ 1,271,767

Required Security Deposit		Amount Supported		
\$	317,942	\$	1	to \$ 5,000,000
\$	635,883	\$	5,000,001	to \$ 10,000,000
\$	953,825	\$	10,000,001	to \$ 15,000,000
\$	1,271,767	\$	15,000,001	to \$ 20,000,000

Modification of SRF Program Loan Repayment Schedules for Financially Distressed Borrowers

Purpose

The TLDA wants to be responsive to Borrowers who may be in financially difficult situations. However, the TLDA has a responsibility to ensure the integrity of the SRF program, which relies on the repayment of monies borrowed to fund future loans. As such, the TLDA must carefully consider any request from a Borrower which may impact the SRF program, including requests to modify loan repayment schedules.

Terms and Conditions

The TLDA will consider modification of SRF loan repayment schedules only if:

- (1) The Comptroller has filed a copy of the Borrower's audited financial statements with the Utility Management Review Board pursuant to Tenn. Code Ann. §7-82-703(a) or the Borrower's audit report with the Water and Wastewater Financing Board pursuant to Tenn. Code Ann. § 68-221-1010(a); or

(2) A significant event beyond the control of the Borrower occurs and impacts the Borrower's ability to repay the SRF Loan, such as:

- A natural disaster; or
- Loss (or reduction in capacity) of a large customer (commercial, industrial, governmental); or
- Similar unforeseen event despite prudent action having been taken; or

(3) The TLDA deems such action to be for the benefit of the people of the state in the performance of essential public functions and that such action serves a public purpose in improving and otherwise promoting the health, welfare, and prosperity of the people of the state.

In considering a request to modify a SRF loan repayment schedule, the TLDA will take into account whether or not the Borrower has:

- Implemented or is about to implement a plan to adopt a multi-year rate schedule to address its financial difficulties;
- Rates sufficient to cover debt service on a new debt issuance for capital improvements necessary to bring the Borrower in compliance with any TDEC administrative orders, including, but not limited to: Agreed Orders, Commissioner's Orders, Director's Orders, or Consent Decrees;
- A history of timely debt service payments on the loan to the SRF program in accordance with the current payment schedule;
- A plan to attract new customers or to expand the existing customer base;
- A plan to reduce expenses or make efficiency improvements to the system; and
- A debt management policy compliant with the State Funding Board's directive under Tenn. Code Ann. § 9-21-151 that addresses actions to be taken to avoid default or to provide adequate rates to service debt (rates will be set to provide at least a 1.20x debt service coverage).

Such requests for modification of a SRF loan repayment schedule should be made in writing to the TLDA.

Relief

The TLDA may offer as relief a reduction or waiver of the interest due on the loan for a specified period of time. In the event of a disaster or catastrophic loss, additional measures may be considered on a case-by-case basis by the TLDA. However, no principal will be forgiven except as originally contemplated under federal directives and approved by the TLDA in the loan agreement.

A Borrower in financial distress with outstanding capital market securities may be required to disclose the financial distress as an event pursuant to SEC Rule 15c2-12. Borrowers should seek the advice of bond or disclosure counsel in determining what disclosure is appropriate.

Privately Owned For-Profit Community Public Water Systems

On April 20, 2015, Public Chapter No. 207 amended Tenn. Code Ann. § 68-221-1203(6) to allow privately owned for-profit community public water systems access to the Drinking Water State Revolving Fund. However, Private Systems are not eligible for loans from the Clean Water State Revolving Fund.

Terms and Conditions

Tennessee state law includes terms and conditions for Private Systems that seek Drinking Water SRF program funding.

Tenn. Code Ann. § 68-221-1206(f)(11) stipulates that loans may be made to Private Systems pursuant to 40 CFR Part 35; provided, that:

- No Private System shall be considered for loans with principal forgiveness under this program;
- Private Systems shall be categorized as one hundred percent (100%) ability to pay on the index established pursuant to § 68-221-1205;
- A Private System borrower shall have at least a debt/service coverage ratio of 1.25;
- Private Systems shall provide security determined by the TLDA to be acceptable to secure a loan under this part; and
- The TLDA has the authority to direct a Private System to the water and wastewater financing board for compliance as set forth in § 68-221-1009 and § 68-221-1010, and by the Comptroller of the Treasury.

At the time of the approval of this Policy and Guidance, no loans have been made to Private Systems nor have any applications been received. Therefore, the policies and guidance included in this document are not at this time applicable to Private Systems.

Adoption of Policy and Guidance

The TLDA adopted this Policy and Guidance on _____, 2016, effective on _____, 2016.

Vice Chair

Tennessee Local Development Authority

DRAFT

BASS BERRY & SIMS^{PC}

150 Third Avenue South, Suite 2800
Nashville, TN 37201
(615) 742-6200

August 30, 2015

Via email: Alicia.Scott@cot.tn.gov

Office of State and Local Finance
505 Deaderick Street
James K. Polk Building, Suite 1600
Nashville, TN 37243-1402

Re: Comments on Proposed SRF Policy and Guidance for Borrowers

Ladies and Gentlemen:

Thank you for providing us the opportunity to comment on the Proposed SRF Policy and Guidance for Borrowers. We appreciate and support your efforts in developing policies that both ensure the stability and security of the SRF Program for the State of Tennessee and that provide local governments the flexibility to fund necessary and important projects both from the SRF Program and from other funding sources. These are our comments.

1. The TLDA should consider revising its policies to permit an SRF loan to be made on a parity lien basis with respect to existing debt.

We believe it is very important for local governments to be able to borrow effectively from both the SRF Program and through the municipal bond and commercial banking markets (the “public markets”). For local governments that borrow from the public markets on a revenue-only basis (utility districts, authorities and municipalities that do not wish to back-stop their utility debt with a general obligation pledge), the cost of debt hinges on the seniority of the pledge of revenues securing the debt. Banks and investors will demand higher interest rates for subordinate lien debt. Those higher interest rates result in additional costs for local ratepayers.

The TLDA has taken important and helpful steps in providing local governments consistency and certainty as to when public market debt can be issued on parity with (and in certain limited circumstances, senior to) an existing SRF Loan. For example, existing and proposed TLDA policies provide a clear path for a water utility district which has outstanding only a 2012 SRF Loan to issue 2016 public market bonds that benefit from a senior lien on water revenues, on parity with the lien in favor of the 2012 SRF Loan.

However, the SRF Program remains problematic in situations where an SRF Loan is made to a local government that already has outstanding public market debt, because TLDA policies do not allow for an SRF Loan to be made on parity with existing debt. This is an example of what we frequently encounter:

A municipal utility issues Series 2010 public market bonds on a senior lien basis. In 2012, the municipal utility enters into an SRF loan. Because SRF policies do not contemplate the SRF loan being made on parity with existing debt, the SRF loan has a second/subordinate lien to the Series 2010 bonds. In 2015, the municipal utility wishes to issue additional public market, revenue-only bonds. The local government hopes to issue

the Series 2015 bonds on a senior lien basis in order to minimize debt service costs for its ratepayers. To do that, the Series 2015 Bonds must be issued on parity with the Series 2010 Bonds and therefore senior to the 2012 SRF Loan. Under TLDA's policies, that would require a request of TLDA to subordinate the 2012 SRF loan to the proposed debt. The TLDA's policies generally do not favor subordination requests, so the municipal utility may be left to issue subordinate lien debt (either subordinate to or on parity with the 2012 SRF Loan) that is more costly to its ratepayers.

The TLDA should consider revising its policies to permit an SRF loan to be made on a parity lien basis with respect to existing debt, when the local government requests it and when applicable parity test conditions can be met. In the example above, the 2012 SRF Loan could have been made on parity with the Series 2010 bonds. On its own, this is favorable to the SRF Program insofar as the SRF Loan will be made at a higher lien level (i.e. parity with existing debt rather than subordinate to existing debt). In addition, the local government would then have been able to issue the 2015 bonds on a senior lien basis by obtaining the TLDA's consent to the issuance of the 2015 Bond on parity with the 2012 SRF Loan and Series 2010 bonds.

2. The TLDA should consider revising the proposed policy to (a) limit TLDA's approval rights with respect to proposed revenue and tax debt to circumstances where the proposed debt will be issued on a parity of lien or senior lien with respect to the net revenues of the applicable utility system and (b) remove references to lien priority for general obligation debt.

The provision of the proposed policy entitled "Requests From Municipalities to Issue General Obligation Debt" appears to apply the concepts of lien and lien priority to a general obligation pledge by including a requirement that the TLDA approve subsequently issued general obligation debt for any municipality with an SRF Loan if the general obligation debt will have a lien prior to or on a parity with the SRF Loan. For example, if a municipality with an SRF Loan subsequently issues school bonds, the proposed Policy would require TLDA approval of the issuance of school bonds if the lien on the general obligation was on parity with the SRF lien. However, because there cannot be a lien on the ad valorem taxing power and full faith and credit of the municipality, there is no lien priority for general obligation debt in Tennessee. We suggest that these provisions of the proposed policy be replaced with the italicized language below, limiting TLDA's approval rights to revenue and tax debt intended to be issued on a parity of lien or senior lien with respect to the net revenues of the applicable utility system, and removing references to lien priority for general obligation debt. In addition, the phrase "and/or ad valorem taxes (if applicable)" in the first sentence of the Section entitled "Consent to Modify Lien Position" should be removed.

Municipal Borrowers do not need to seek approval from or provide notification to the TLDA to issue general obligation debt unless such general obligation debt is also secured by a pledge of revenues derived from the water/wastewater system that is to be on parity with or senior to the SRF loan(s). If a Borrower intends for such revenues of the water/wastewater system to have a parity or senior lien position, the Borrower must request the approval of the TLDA in writing. Such request should be submitted at least 45 days in advance (or as soon as possible) of proposed issuance of additional debt. The TLDA must approve any modification of the SRF program's lien position prior to the issuance of any general obligation debt that has an additional pledge of revenues of the water/wastewater system (new money or refunding). Borrowers should always consult

bond or disclosure counsel in order to obtain advice on the appropriate disclosure to be made in offering documents for general obligation bonds or notes concerning the lien held by the SRF program.

3. The TLDA should consider ~~revising the proposed policy to eliminate the requirements that municipalities notify the TLDA prior to the issuance of subordinate debt or debt secured by an unrelated utility system.~~

The proposed policy requires a municipality to notify TLDA at least 45 days prior (or as soon as possible) to the issuance of debt secured by revenues “other than revenues of the water/wastewater system”. This is a new requirement – in the past, no notice was required for unrelated debt. For example, if a municipality issues electric bonds and it has a SRF Loan for its water and sewer system, notification must be given to TLDA at least 45-days prior to the issuance of its electric system bonds. It is difficult to discern the policy reason for this notification. This provision will almost certainly result in numerous inadvertent violations, because municipalities and their advisors will not think to review provisions of water and wastewater SRF loan documents to identify notice requirements related to the issuance of electric, gas or other utility debt. In certain cases (e.g. a municipality’s board of public utilities issuing electric system revenue anticipation notes), the issuer of the unrelated debt will not have been the borrower under the SRF Program and will have no reason to be aware of the notice requirement. Furthermore, State law already requires municipalities to notify the Office of State and Local Finance of each debt issuance via filing of a CT-0253. In our view, the proposed pre-issuance notice requirement is redundant and will only serve to frustrate the municipalities that borrow from the SRF Program.

The proposed policy also requires a municipality to notify TLDA at least 45 days prior (or as soon as possible) to the issuance of water/wastewater system debt that has a subordinate lien on the Net Revenues of the System. This is also a new requirement – in the past, no notice was required for subordinate lien debt. For the same reasons described in the previous paragraph, we believe this pre-issuance notice requirement is redundant and will only serve to frustrate the municipalities that borrow from the SRF Program.

Thank you again for your continued efforts to make the SRF Loan Program an effective tool for the State’s local governments. We hope these comments are constructive and helpful.

Kindest regards,

BASS, BERRY & SIMS PLC



CUMBERLAND SECURITIES

August 30, 2016

Via email: Alicia.Scott@colt.tn.gov
Office of State and Local Finance
505 Deaderick Street
James K. Polk Building
Suite 1600
Nashville, TN 37243-1402

Re: Comments on Proposed SRF Policy and Guidance for Borrowers

Ladies and Gentlemen,

Thank you for the opportunity to comment on the Proposed SRF Policy and Guidance for Borrowers. Besides our conference call with your office, we had extensive discussions with Bass, Berry & Sims PLC ("Bass Berry") on providing comments about the proposed SRF Policy and Guidance for Borrowers and its potential effect on borrowers.

Therefore, we fully support the comments that Bass Berry provided to the Office of State and Local Finance via their letter dated August 30, 2016.

Best regards,

Cumberland Securities Company, Inc.

Cumberland Securities Company, Inc.
P.O. Box 24508 Knoxville, Tennessee 37933
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August 31, 2016

Memorandum

To: Alicia Scott
Office of State and Local Finance
From: PFM Financial Advisors LLC
Re: TLDA Seeks Public Comment on Proposed SRF Policy and Guidance for Borrowers

PFM has reviewed the Tennessee Local Development Authority's ("TLDA") proposed "State Revolving Fund Policy & Guidance for Borrowers" (the "Policy") and have provided questions and/or comments of clarification below.

In general, we believe TLDA's efforts to revise and conform prior policies and procedures (written and unwritten) makes sense and provides current and potential new borrowers more clarity and directions when looking to borrow or refinance current SRF loans from TLDA. Additional comments are noted below:

Issuance of Additional Debt

This sections provides directions and guidance to Borrowers that wish to issue additional debt and clarifies TLDA's position and factors they consider when requests to modify lien positions are made. We are mindful of TLDA's position and responsibility to ensure the integrity of the program but have noted the following:

1) Approval for the Issuance of Refunding Debt: The policy allows for the Vice-Chairman of the TLDA to approve refunding debt if the Borrower is not requesting parity or senior lien position for the refunding debt. PFM suggests that TLDA provide additional clarity here. For example, if a proposed refunding by a borrower currently has senior lien position or is on parity with a SRF loan and a Borrower was requesting approval for the issuance of refunding debt would the Borrower need to seek re-approval for the loan to retain its senior lien or parity lien position? If not, should the language be replaced with "The Borrower is not requesting parity or senior a change in lien position for the refunding debt".

2) Security and Representations and Covenants Required for Considerations of a UD or System's Request to Issue Additional Revenue Debt: The policy indicates that no additional debt will be issued or entered into unless various factors are met including item (1) that "Prior approval is received from the TLDA". Similar to the requirements of TLDA, generally, a UD's or System's bond indentures prescribe various test that are required to be met in order to issue additional bonds



(“Additional Bonds Test” or “ABT”). In the case of a UD’s or Systems revenue debt, if these test are met the UD or System does not need to seek any additional approval from bondholders. As such, would TLDA consider prior approval from TLDA not be needed in order for a UD or System to access the public debt markets if they have complied with the Additional debt Covenants of TLDA?

3) Request from Municipalities to Issue General Obligation Debt: TLDA’s policy seems to imply that general obligation (“GO”) pledges contain a lien position and that municipalities do not need to seek approval to issue additional GO debt if the GO pledge is subordinate to the SRF loan. We do not believe there are lien priorities in TN for GO debt and request clarity on this reference.

4) Request from UD’s, System’s or Municipalities to Modify Lien Position: the Policy indicates that generally lien positions are determined by the date of the debt. We interpret this to mean indebtedness issued by a UD, System or Municipality issued in 2010 would retain a higher lien position than debt issued in 2015. Any debt issued by either a UD, System or Municipality contains the respective lien agreed to or provided by the issuer at the time the indebtedness is issued and said issuer retains any rights that were granted or agreed to at the time of issuance which generally includes the right to issue additional bonds under said lien. Based on TLDA’s position regarding lien priority, if an issuer issues revenue or GO indebtedness that allows for additional bonds in year 1 and then enters into an SRF loan with a parity or subordinate pledge in year 2; the issuer would be precluded from issuing any additional bonds on parity without first seeking approval from TLDA. Will the TLDA allow for additional bonds to be issued on parity with SRF loans if various factors are met without written request to TLDA?

Increment Funding of Security Deposit for Utility Districts and Systems

The Policy indicates that Section 8 of SRF loan agreements requires a security deposit equal to maximum annual debt service for UD and System loans. If there is a double barrel GO pledge, would TLDA consider waiving this requirement?



FINANCE DEPARTMENT

Municipal Building - 223 Associates Blvd., Alcoa, TN 37701

Office: 865-380-4773 Fax: 865-380-4785

August 31, 2016

Ms. Alicia Scott
Office of State and Local Finance, TN
VIA email: Alicia.Scott@cot.tn.gov

Ms. Scott,

We would like to make the following comment with regard to the TLDA Proposed SRF Policy and Guidance for Borrowers, specifically the provisions relating to municipalities on pages 5-7 of the proposed policy.


The first provision entitled "Requests From Municipalities to Issue General Obligation Debt" appears to apply the concepts of lien and lien priority to a general obligation pledge by including a requirement that the TLDA approve subsequently issued general obligation debt for any municipality with a SRF Loan Agreement if the general obligation debt will have a lien prior to or on a parity with the SRF Loan Agreement.

We respectfully request the following replacement language:

Municipal Borrowers do not need to seek approval from or provide notification to the TLDA to issue general obligation debt unless such general obligation debt is also secured by a pledge of revenues derived from the water/wastewater system that is to be on parity with or senior to the SRF loan(s). If a Borrower intends for such revenues of the water/wastewater system to have a parity or senior lien position, the Borrower must request the approval of the TLDA in writing. Such request should be submitted at least 45 days in advance (or as soon as possible) of proposed issuance of additional debt. The TLDA must approve any modification of the SRF program's lien position prior to the issuance of any general obligation debt that has an additional pledge of revenues of the water/wastewater system (new money or refunding.) Borrowers should always consult bond or disclosure counsel in order to obtain advice on the appropriate disclosure to be made in offering documents for general obligation bonds or notes concerning the lien held by the SRF program.

Should this language not be changed, we are of the opinion that we quite likely will not participate in SRF/TLDA programs in the future.

Thank you,


Susan A. Gennoe, CPA
Finance Director

Cc: (email) Mark Johnson, CPA, City of Alcoa City Manager
Bill Hammon, City of Alcoa Assistant City Manager
Scott Gibson, Cumberland Securities

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From: Frisbee, Sherry
To: Alicia Scott
Subject: Input on proposed TLDA/SRF Loans policy change
Date: Wednesday, August 31, 2016 9:51:06 AM

Alicia

I have just been informed of the TLDA/SRF Loans new proposed policy changes. In this proposed policy change it states that Newport Utilities would have to notify TLDA before issuance of electric bonds if NU has a water or sewer SRF Loan. I really don't see the logic in this since the Electric system is totally a different entity. TVA regulates the electric department so that we cannot commingle any funds. NU would never use Water and Sewer revenue to pay for an Electric loan, or Water and Sewer funds would never be used to pay for an electric loan.

Please let me know the logic of the requirement.

Thanks

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From: Greg Davenport [<mailto:gregd@JRWAUFORD.COM>]
Sent: Friday, August 26, 2016 9:53 AM
To: Sherwin Smith; Bagher Sami
Subject: FW: Bass, Berry & Sims memo

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Sherwin,

The proposed TLDA policy appears to require municipalities with SRF loans to seek approval from TLDA prior to borrowing money for other purposes. Can you give me your opinion on this? It would make SRF funds less desirable to municipalities if it is true as folks would see one more hoop to jump through in the future. It seems onerous to me.

Also, looks like you should have everything on Lewisburg. When do you anticipate moving forward and do you think Lewisburg will be able to receive principal forgiveness? Thanks.

Greg Davenport